

Avondale School District

Auburn Hills, Michigan

**Annual Financial Statements
and
Auditors' Report**

June 30, 2007

Table of Contents

<u>Section</u>	<u>Page</u>
1 Members of the Board of Education and Administration	1 - 1
2 Independent Auditors' Report	2 - 1
3 Management's Discussion and Analysis	3 - 1
4 Basic Financial Statements	
District-wide Financial Statements	
Statement of Net Assets	4 - 1
Statement of Activities	4 - 2
Fund Financial Statements	
Governmental Funds	
Balance Sheet	4 - 3
Reconciliation of the Balance Sheet of	
Governmental Funds to the Statement of Net Assets	4 - 5
Statement of Revenues, Expenditures and Changes in Fund Balances	4 - 6
Reconciliation of the Statement of Revenues, Expenditures and	
Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 - 8
Fiduciary Funds	
Statement of Fiduciary Net Assets	4 - 9
Statement of Changes in Fiduciary Net Assets	4 - 10
Notes to Financial Statements	4 - 11
5 Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	5 - 1

SectionPage

6

Other Supplemental Information

Nonmajor Governmental Funds

Combining Balance Sheet

6 - 1

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

6 - 2

General Fund

Comparative Balance Sheet

6 - 3

Schedule of Outstanding Bonded Indebtedness

6 - 4

Continuing Disclosure Undertaking (Unaudited)

6 - 8

Avondale School District
Members of the Board of Education and Administration
June 30, 2007

Members of the Board of Education

Stephen Sucher	President
Cynthia Tischer	Vice President
Kessie Kaltsounis	Secretary
Cyndi Pettit	Treasurer
Kenneth Hedrick	Trustee
Debra LaMothe	Trustee
Tammy Muczynski	Trustee

Administration

Romaneir Polley – Director of Business Services

George Heitsch - Superintendent



3023 Davenport
Saginaw, MI 48602
Phone (989) 793-9830 / (800) 968-0010
Fax (989) 793-0186 Add office letterhead here

Independent Auditors' Report

To the Board of Education
Avondale School District
Auburn Hills, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Avondale School District as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Avondale School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Avondale School District as of June 30, 2007, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 23, 2007, on our consideration of the Avondale School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Avondale School District's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Saginaw, Michigan
October 23, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Avondale School District
Management's Discussion and Analysis
June 30, 2007

This section of the Avondale School District's (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the fiscal year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Avondale School District financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds - the General Fund and the 2003 Building and Site Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for General Fund

Other Supplemental Information

Reporting the School District as a Whole - Government-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Avondale School District
Management's Discussion and Analysis
June 30, 2007

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community education, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Services and Athletic Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds and private purpose trust funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Avondale School District
Management's Discussion and Analysis
June 30, 2007

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2007 and 2006.

TABLE 1

	<u>Governmental Activities</u>	
	(in millions)	
	<u>2007</u>	<u>2006</u>
Assets		
Current and other assets	\$ 10.5	\$ 12.8
Capital assets	<u>110.9</u>	<u>112.0</u>
Total assets	<u>121.4</u>	<u>124.8</u>
Liabilities		
Current liabilities	7.4	16.4
Long-term liabilities	<u>112.2</u>	<u>109.0</u>
Total liabilities	119.6	125.4
Net assets (deficit)		
Invested in capital assets - net of related debt	10.8	9.5
Restricted	1.9	0.9
Unrestricted	<u>(11.0)</u>	<u>(11.0)</u>
Total net assets (deficit)	<u>\$ 1.7</u>	<u>\$ (0.6)</u>

The School District's net assets (deficit) were \$1.7 million and (\$0.6 million) at June 30, 2007 and 2006, respectively. Capital assets, net of related debt totaling \$10.8 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets is an unrestricted deficit and totals (\$11 million).

Avondale School District
Management's Discussion and Analysis
June 30, 2007

The (\$11 million) in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. A positive unrestricted net assets balance would enable the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The School District's unrestricted net asset balance is currently in a deficit position, which signals we will experience difficulties with cash flow. There is also no reserve available to handle large unexpected expenses. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities, which shows the changes in net assets for fiscal years 2007 and 2006. (see Table 2).

TABLE 2

	<u>Governmental Activities</u>	
	(in millions)	
	<u>2007</u>	<u>2006</u>
Revenue		
Program revenue		
Charges for services	\$ 2.1	\$ 3.7
Operating grants and contributions	4.6	1.2
General revenue		
Property taxes	22.7	21.5
State aid - unrestricted	20.5	21.3
Other	<u>0.8</u>	<u>2.2</u>
Total revenue	<u>50.7</u>	<u>49.9</u>
Functions/Program Expenses		
Instruction	26.5	23.9
Supporting services	14.4	14.4
Community services	1.3	1.1
Food services	0.9	0.7
Athletics	0.6	0.6
Interest on long-term debt	4.7	7.3
Depreciation (unallocated)	<u>-</u>	<u>2.3</u>
Total functions/program expenses	<u>48.4</u>	<u>50.3</u>
Increase (decrease) in net assets	<u>\$ 2.3</u>	<u>\$ (0.4)</u>

Avondale School District
Management's Discussion and Analysis
June 30, 2007

As reported in the statement of activities, the cost of all of our governmental activities this year was \$48.4 million. Certain activities were partially funded from those who benefited from the programs (\$2.1 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4.6 million). We paid for the remaining "public benefit" portion of our governmental activities with \$22.7 million in taxes, \$20.5 million in state foundation allowance, and with our other revenues, i.e., interest income and general entitlements.

The School District experienced an increase in the net assets of \$2.3 million, which increased the total net assets from a deficit of (\$.6 million) to \$1.7 million. This change of net assets is due primarily to a decrease in long-term liabilities due to decreased borrowing from the School Bond Loan Fund to repay bonded debt.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$3.6 million, which is a decrease of \$1.8 million from last year. The primary reasons for the decrease are as follows:

- In the General Fund, our principal operating fund, the fund balance decreased \$1.3 million to (\$655,072). The change is mainly due to planned use of fund equity to provide educational programs.
- In the Building and Site Fund, the fund balance decreased \$1.3 million to approximately \$2,100,000 due to the ongoing construction and renovation projects funded by the 2003 bond issue.

Our Special Revenue Funds (Food Services, Athletics, and Community Services Funds) had a combined increase in fund equity of approximately \$12,000. This is due primarily to better management of the funds and expansion of services with Food Services and Community Services posting modest operating surpluses.

Combined, the Debt Service Funds showed a fund balance increase of \$411,816. This is to ensure that the funds have an adequate fund balance relative to the size of the fund. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

Avondale School District
Management's Discussion and Analysis
June 30, 2007

The Capital Projects - Sinking Fund's fund balance increased by approximately \$387,000 due to money set aside for payment of capital projects during the upcoming year.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

There were revisions made to the 2006-2007 General Fund original budget. Budgeted revenues were increased approximately \$.7 million due mainly to the increase in local source allocations of \$.5 million, and an increase in state sources of \$.3 million. The variance from budget to actual for revenues was less than 1.0 percent.

Budgeted expenditures were increased approximately \$670,000 primarily due to increased costs for utilities and one-time expenditures related to facility maintenance. The variance from budget to actual for expenditures was less than 1.0 percent.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2007, the School District had \$110.9 million invested in a broad range of capital assets, including land, construction in progress, buildings, vehicles, furniture, and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of (\$1.1 million).

This year's additions of approximately (\$1.7 million) is primarily comprised of construction projects that were completed in 2006-07, the purchase of furniture and equipment from the capital projects fund, and accumulated depreciation of capital assets.

We present more detailed information about our capital assets in the notes to the financial statements.

Avondale School District
Management's Discussion and Analysis
June 30, 2007

Debt

At the end of this year, the School District had \$88.8 million in bonds outstanding versus \$94.4 million in the previous year (a change of 6 percent). The reduction is due to paying down the principal balance on the outstanding bonds. Those bonds consisted of the following:

1988 Building and Site Capital Appreciation Bonds	\$ 2,216,666
1999 Refunding Bonds	21,055,000
2001 Refunding Bonds	5,560,000
2002 Refunding Bonds	7,355,000
2003 School Building and Site Bonds	16,845,000
2005 Refunding Bonds	7,795,000
2006 Refunding Bonds	9,735,000
2007 Refunding Bonds	18,240,000

The School District's general obligation bond rating is AAA. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries (\$250 million). If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding qualified general obligation debt was \$88.8 million at year end. The District held no unqualified debt.

Other obligations include accrued vacation pay, sick leave, early separation agreements, and accreted interest on capital appreciation bonds. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets

Our elected officials and administration consider many factors when setting the School District's 2007-2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007-2008 fiscal year is 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The 2007-2008 budget was adopted in June 2007, based on an estimate of students that would be enrolled in September 2007. Approximately 87 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations.

Avondale School District
Management's Discussion and Analysis
June 30, 2007

Based on the initial fall student count, the blended count to formulate the 2007-2008 budget is slightly under the target number. Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations. At this time, we do not anticipate the need to amend the budget based on student count variances.

Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. It is anticipated with the 2008 budget adoption will include a proposed \$48 per pupil increase in the foundation allowance. The \$48 increase is certainly good news, but is not even adequate to fund increases in operating costs or contractual increases. It is evident that substantial budget reductions are needed for the foreseeable future if the School District hopes to maintain financial stability and independence. Inevitably these budget reductions will impact the instructional programs and services that are presently offered.

If the State's revenue budget falls short of projections, the legislature must revise the appropriation or proration of state aid. We did not receive a proration in the last fiscal year, but it is not known at this time whether a mid-year proration will occur in 2007-2008 and what the impact will be on revenues.

The capital improvement projects funded by the 2003 bonds for the most part concluded in 2005-2006. Some of the capital improvement projects continued in 2006-2007 school year and there still remain a couple of incomplete projects through out the District. A review is currently underway to identify additional projects that might be funded out of any remaining proceeds from the 2003 bond issue.

Contacting the School District's Administration

This report is designed to give an overview of the financial condition of the Avondale School District. If there are additional questions or information needed, please contact the business office at (248) 537-6000.

BASIC FINANCIAL STATEMENTS

Avondale School District
Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>
Assets	
Cash	\$ 844,215
Taxes receivable	76,142
Accounts receivable	168,586
Due from other governmental units	4,037,476
Inventory	7,449
Investments	5,075,455
Prepaid items	51,863
Other assets	216,226
Capital assets not being depreciated	3,080,692
Capital assets - net of accumulated depreciation	<u>107,807,333</u>
Total assets	<u>121,365,437</u>
Liabilities	
Accounts payable	1,337,609
State aid anticipation note payable	20,000
Due to other governmental units	7,560
Payroll deductions and withholdings	10,486
Accrued expenditures	757,943
Accrued salaries payable	3,919,548
Deferred revenue	1,377,811
Noncurrent liabilities	
Due within one year	7,729,031
Due in more than one year	<u>104,465,774</u>
Total liabilities	<u>119,625,762</u>
Net assets	
Invested in capital assets, net of related debt	10,764,693
Restricted for:	
Debt service	1,264,606
Capital projects	720,584
Unrestricted (deficit)	<u>(11,010,208)</u>
Total net assets	<u><u>\$ 1,739,675</u></u>

See Accompanying Notes to Financial Statements

Avondale School District
Statement of Activities
For the Year Ended June 30, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Programs					
Governmental activities					
Instruction	\$ 26,501,434	\$ 149,656	\$ 2,916,703	\$ -	\$ (23,435,075)
Supporting services	14,409,194	-	1,440,648	-	(12,968,546)
Food services	868,830	556,916	264,363	-	(47,551)
Athletic activities	605,430	183,821	13,000	-	(408,609)
Community services	1,280,597	1,207,254	-	-	(73,343)
Interest on long-term debt	4,720,244	-	-	-	(4,720,244)
Total governmental activities	\$ 48,385,729	\$ 2,097,647	\$ 4,634,714	\$ -	(41,653,368)
General revenues					
Property taxes, levied for general purposes					11,903,483
Property taxes, levied for debt service					9,912,545
Property taxes, levied for sinking fund					840,577
State aid - unrestricted					20,520,273
Interest and investment earnings					408,010
Other					394,688
Total general revenues					43,979,576
Change in net assets					2,326,208
Net assets (deficit) - beginning					(586,533)
Net assets - ending					\$ 1,739,675

See Accompanying Notes to Financial Statements

Avondale School District
Governmental Funds
Balance Sheet
June 30, 2007

	General Fund	2003 Building and Site Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 62,916	\$ 145,529	\$ 635,770	\$ 844,215
Taxes receivable	51,709	-	-	51,709
Accounts receivable	161,141	-	7,445	168,586
Due from other funds	41,034	8,113	556,846	605,993
Due from other governmental units	4,037,476	-	-	4,037,476
Inventory	-	-	7,449	7,449
Investments	1,888,098	1,988,228	1,199,129	5,075,455
Prepaid items	50,646	-	1,217	51,863
Total assets	<u>\$ 6,293,020</u>	<u>\$ 2,141,870</u>	<u>\$ 2,407,856</u>	<u>\$ 10,842,746</u>
Liabilities and fund balance				
Liabilities				
Accounts payable	\$ 1,097,725	\$ 26,021	\$ 213,863	\$ 1,337,609
State aid anticipation note payable	20,000	-	-	20,000
Due to other funds	559,094	-	22,466	581,560
Due to other governmental units	-	-	7,560	7,560
Payroll deductions and withholdings	10,486	-	-	10,486
Accrued salaries payable	3,906,650	-	12,898	3,919,548
Deferred revenue	1,354,137	-	23,674	1,377,811
Total liabilities	<u>6,948,092</u>	<u>26,021</u>	<u>280,461</u>	<u>7,254,574</u>

See Accompanying Notes to Financial Statements

Avondale School District
Governmental Funds
Balance Sheet
June 30, 2007

	<u>General Fund</u>	<u>2003 Building and Site Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund balance				
Reserved for debt service	\$ -	\$ -	\$ 1,264,606	\$ 1,264,606
Reserved for capital projects	-	-	720,584	720,584
Other undesignated (deficit)	<u>(655,072)</u>	<u>2,115,849</u>	<u>142,205</u>	<u>1,602,982</u>
Total fund balance (deficit)	<u>(655,072)</u>	<u>2,115,849</u>	<u>2,127,395</u>	<u>3,588,172</u>
Total liabilities and fund balance	<u><u>\$ 6,293,020</u></u>	<u><u>\$ 2,141,870</u></u>	<u><u>\$ 2,407,856</u></u>	<u><u>\$ 10,842,746</u></u>

See Accompanying Notes to Financial Statements

Avondale School District
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2007

Total fund balances for governmental funds	\$ 3,588,172
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	3,080,692
Capital assets - net of accumulated depreciation	107,807,333
Other long-term assets are not deferred in the governmental funds.	216,226
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(738,135)
Claims and judgments	(19,808)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Compensated absences	(64,443)
Employee severance pay	(2,863,000)
Retirement incentives	(927,445)
Bonds payable	(88,548,092)
Capital lease payable	(206,692)
Accrued interest	(953,365)
School bond loan payable	(11,584,768)
Other loans payable and liabilities	<u>(7,047,000)</u>
Net assets of governmental activities	<u>\$ 1,739,675</u>

Avondale School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2007

	General Fund	2003 Building and Site Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 12,579,975	\$ 114,454	\$ 12,804,934	\$ 25,499,363
State sources	22,370,204	-	28,498	22,398,702
Federal sources	930,229	-	235,865	1,166,094
Interdistrict sources	1,647,778	-	-	1,647,778
	<u>37,528,186</u>	<u>114,454</u>	<u>13,069,297</u>	<u>50,711,937</u>
Expenditures				
Current				
Education				
Instruction	24,606,083	-	-	24,606,083
Supporting services	13,439,780	-	-	13,439,780
Food services	-	-	821,786	821,786
Athletic activities	-	-	572,648	572,648
Community services	949	-	1,210,307	1,211,256
Intergovernmental payments	156,776	-	-	156,776
Capital outlay	367,872	1,430,636	467,760	2,266,268
Debt service				
Principal	-	-	7,012,042	7,012,042
Interest and other expenditures	-	-	4,735,997	4,735,997
Bond issuance costs	-	-	216,226	216,226
	<u>38,571,460</u>	<u>1,430,636</u>	<u>15,036,766</u>	<u>55,038,862</u>
Deficiency of revenues under expenditures	<u>(1,043,274)</u>	<u>(1,316,182)</u>	<u>(1,967,469)</u>	<u>(4,326,925)</u>

See Accompanying Notes to Financial Statements

Avondale School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2007

	<u>General Fund</u>	<u>2003 Building and Site Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Other financing sources (uses)				
Proceeds from refinancing debt	\$ -	\$ -	\$ 18,240,000	\$ 18,240,000
Payment to bond refunding escrow agent	-	-	(17,617,740)	(17,617,740)
Discount on issuance of bonds	-	-	(406,034)	(406,034)
Proceeds from school bond loan fund	-	-	2,068,006	2,068,006
Capital lease	252,364	-	-	252,364
Transfers in	-	-	494,500	494,500
Transfers out	(494,500)	-	-	(494,500)
	<u>(242,136)</u>	<u>-</u>	<u>2,778,732</u>	<u>2,536,596</u>
Total other financing sources (uses)				
Net change in fund balance	(1,285,410)	(1,316,182)	811,263	(1,790,329)
Fund balance - beginning	<u>630,338</u>	<u>3,432,031</u>	<u>1,316,132</u>	<u>5,378,501</u>
Fund balance (deficit) - ending	<u><u>\$ (655,072)</u></u>	<u><u>\$ 2,115,849</u></u>	<u><u>\$ 2,127,395</u></u>	<u><u>\$ 3,588,172</u></u>

See Accompanying Notes to Financial Statements

Avondale School District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2007

Net change in fund balances - Total governmental funds **\$ (1,790,329)**

Total change in net assets reported for governmental activities in the statement of activities
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(2,864,410)
Capital outlay	1,710,427

Expenses are recorded when incurred in the statement of activities.

Interest	(30,447)
Claims and judgments	(19,808)
Special termination benefits	504,700
Compensated absences	32,531

Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Debt issued	(20,308,006)
Repayments of long-term debt	23,812,042
Defer gain on debt defeasance	817,740
Defer bond discount	406,034
Defer bond issuance costs	216,226
Proceeds of capital lease	(252,364)
Repayments of capital lease	45,672
Amortization of premiums	<u>46,200</u>

Change in net assets of governmental activities **\$ 2,326,208**

See Accompanying Notes to Financial Statements

Avondale School District
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2007

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash	\$ 8,102	\$ -
Investments	<u>-</u>	<u>430,829</u>
Total assets	<u>8,102</u>	<u>\$ 430,829</u>
Liabilities		
Due to other funds	-	\$ 24,433
Due to agency fund activities	<u>-</u>	<u>406,396</u>
Total liabilities	<u>-</u>	<u>\$ 430,829</u>
Net assets		
Reserved for scholarships and loans	<u>\$ 8,102</u>	

See Accompanying Notes to Financial Statements

Avondale School District
Fiduciary Funds
Private Purpose Trust Funds
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2007

	Private Purpose Trust Funds
Additions	\$ -
Deductions	<u>-</u>
Change in net assets	-
Net assets - beginning	<u>8,102</u>
Net assets - ending	<u><u>\$ 8,102</u></u>

See Accompanying Notes to Financial Statements

Avondale School District

Notes to Financial Statements

June 30, 2007

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Avondale School District (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The School District first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from current year activities.

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Avondale School District
Notes to Financial Statements
June 30, 2007

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Capital Projects Fund – The 2003 Building and Site Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, building, equipment, and for remodeling and repairs. The fund is kept open until the purpose for which the fund was created has been accomplished.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include Food Service, Athletics and Community Services Fund. Operating deficits generated by these activities are generally transferred from the General Fund.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Capital Projects Fund - The Sinking Fund is used to record the sinking fund property tax levy and other revenue and the disbursement of invoices specifically designated for acquiring new school sites, construction or repair of school buildings.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Trust Funds are funds entrusted to the School District for scholarship awards and loans and the principal and interest of the trust may be spent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property taxes and other receivables are shown net of an allowance for uncollectible amounts.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2007, the rates are as follows per \$1,000 of assessed value.

General Fund	
Homestead	1.2503
Nonhomestead	18.0000
Debt Service Funds	
Homestead	7.0000
Nonhomestead	7.0000
Sinking Fund	
Homestead	0.5940
Nonhomestead	0.5940

Avondale School District
Notes to Financial Statements
June 30, 2007

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County of Oakland and remitted to the School District by May 15.

Investments – Investments are stated at fair value based on a quoted market price. Certificates of deposit are stated at cost which approximates fair value.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$1,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings and additions, furniture, equipment, and buses and other vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	50 years
Furniture	20 years
Equipment	10 years
Buses and other vehicles	8 years

Compensated Absences – The liability for compensated absences reported in the government-wide statements consists of earned but unused accumulated vacation day balances. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Employee Severance Pay - A liability for employee severance pay is reported in the government-wide statements. The School District offers an employee severance pay to certain union groups. The estimate is calculated based on language obtained within the union contracts and a five year historical average of actual severance payouts. This estimate is calculated on an annual basis

Retirement Incentives - A liability for retirement incentives is reported in the government-wide statements. The voluntary severance incentive plan consists of early retirement incentive cash payments to be provided to employees. The early retirement incentives are to be provided to 20 employees over a four year period.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the term of the related debt.

Avondale School District

Notes to Financial Statements

June 30, 2007

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data

Comparative data is not included in the School District's financial statements.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Upcoming Accounting and Reporting Change

The Government Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pensions*. The new pronouncement provides guidance for school districts in recognizing the cost of retiree health care. The new rules will cause district-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

The Government Accounting Standards Board has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses how to account for pollution remediation activities of the effects of existing pollution; it does not include prevention or control activities or remediation required upon the retirement of an asset. In general, the new rules will cause district-wide financial statements to recognize a liability on the current value of expected costs as estimated using the expected cash flows method. This statement is effective for the year ending June 30, 2009.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby cancel all encumbrances. These appropriations are reestablished at the beginning of the year.

The appropriation level adopted by the Board is the level of control authorized under the Act. The Act requires expenditures to be budgeted on a functional basis. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the Act if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

Avondale School District

Notes to Financial Statements

June 30, 2007

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
General administration	\$ 729,599	\$ 731,372	\$ 1,773
Business	665,814	698,028	32,214
Food Service Fund	796,162	822,837	26,675

In addition, revenue and capital outlay expenditures of \$252,364 were recorded for a capital lease in the current year. This was not budgeted for as it has no income effect. The remaining capital outlay as reported on the Budgetary Comparison Schedule – General Fund was budgeted for under instruction and supporting services.

The District adopted a deficit budget for the general fund. The adopted budget projected that expenditures would exceed the available resources at the end of the year by \$1,558,994. Actual results from fiscal year 2007 resulted in the general fund having a fund balance deficit of \$655,072.

Compliance Bond Proceeds

The 2003 Building and Site Fund include capital project activities funded with bonds issued after May 1, 1994. The following is a summary of the revenue and expenditures in the 2003 Building and Site Fund from the inception of the funds through the current fiscal year:

	2003 Building and Site Fund
Revenues	\$ 60,317,614
Expenditures	58,251,039

Compliance Sinking Funds

The Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of § 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 2004-4.

Note 3 - Deposits and Investments

The School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 844,215	\$ 8,102	\$ 852,317
Investments	5,075,455	430,829	5,506,284
	<u>\$ 5,919,670</u>	<u>\$ 438,931</u>	<u>\$ 6,358,601</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 3,103,556
Investments in securities, mutual funds, and similar vehicles	<u>3,255,045</u>
Total	<u>\$ 6,358,601</u>

As of year end, the District had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
Bank investment pool	<u>\$ 3,255,045</u>	Various	AAAm	Standard & Poor's

Avondale School District

Notes to Financial Statements

June 30, 2007

Interest rate risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. The School District's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter term securities, liquid asset funds, money market mutual funds or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Credit risk – State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

The school District has designated 5 banks for the deposit of its funds.

Concentration of credit risk – The District has no policy that would limit the amount that may be invested with any one issuer. The School District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable

risk level are used for the School District's deposits for custodial credit risk. As of year end, \$ 5,976,214 of the District's bank balance of \$ 6,376,214 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law. At June 20, 2007, the District did not hold any investment securities that were uninsured and unregistered.

Note 4 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 3,080,692	\$ -	\$ -	\$ 3,080,692
Capital assets being depreciated				
Buildings and additions	124,027,383	465,124	-	124,492,507
Equipment and furniture	7,466,426	1,115,281	-	8,581,707
Buses and other vehicles	1,774,909	130,022	-	1,904,931
Total capital assets being depreciated	133,268,718	1,710,427	-	134,979,145
Less accumulated depreciation for				
Buildings and additions	18,706,766	2,179,739	-	20,886,505
Equipment and furniture	4,289,793	598,139	-	4,887,932
Buses and other vehicles	1,310,843	86,532	-	1,397,375
Total accumulated depreciation	24,307,402	2,864,410	-	27,171,812
Net capital assets being depreciated	108,961,316	(1,153,983)	-	107,807,333
Net capital assets	\$ 112,042,008	\$ (1,153,983)	\$ -	\$ 110,888,025

Avondale School District
Notes to Financial Statements
June 30, 2007

Depreciation expense was charged to activities of the School District as follows:

Governmental activities

Instruction	\$ 1,733,806
Support services	947,001
Food services	57,905
Athletic activities	40,350
Community services	<u>85,348</u>
Total governmental activities	<u>\$ 2,864,410</u>

Construction Contracts

As of year end, the School District had the following construction contracts in progress:

Project	Total Contract	Remaining Construction Commitment at Year End	Contract Payable at Year End
Sinking Fund	\$ 997,272	\$ 837,175	\$ 171,738
2003 Building and Site Fund	<u>26,663,278</u>	<u>279,689</u>	<u>-</u>
Total	<u>\$ 27,660,550</u>	<u>\$ 1,116,864</u>	<u>\$ 171,738</u>

Contracts payable at year end, represent actual contractor billings of \$ 180,037 and are recorded as a Sinking Fund liability. All projects are expected to be complete by the end of next fiscal year.

Note 5 - Interfund Receivable and Payable and Transfers

Individual interfund receivable and payable balances at year end were:

Due From Fund	Due to Fund	Amount
General Fund	Nonmajor Governmental Funds	\$ 22,466
2003 Building and Site Fund	General Fund	8,113
General Fund	Agency Fund	18,568
Nonmajor Governmental Funds	General Fund	550,981
Nonmajor Governmental Funds	Agency Fund	<u>5,865</u>
		<u>\$ 605,993</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers consist of the following:

	Transfers Out General Fund
Transfers in	
Nonmajor governmental funds	<u>\$ 494,500</u>

These transfers were made to cover the costs of School District programs that were in excess of revenues generated from those activities in the Athletic Fund.

Note 6 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

Avondale School District
Notes to Financial Statements
June 30, 2007

	<u>Unearned</u>
Property taxes	\$ 1,354,137
Other	<u>23,674</u>
Total	<u>\$ 1,377,811</u>

Deferred revenue is primarily due to the School District being overpaid taxes from TIFA dollars in previous years.

Note 7 - Leases

Capital Leases

The School District has a capital lease for copiers. The future minimum lease payments are as follows:

Year ending June 30,	
2008	\$ 56,995
2009	56,995
2010	56,995
2011	<u>56,995</u>
Total minimum lease payments	227,980
Less amount representing interest	<u>21,288</u>
Present value of minimum lease payments	<u>\$ 206,692</u>

The assets acquired through capital leases are as follows:

Assets	
Machinery and equipment	\$ 252,364
Less accumulated depreciation	<u>50,473</u>
Total	<u>\$ 201,891</u>

Note 8 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund.

These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Short term debt activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Ending Balance</u>
State aid anticipation note	\$ -	\$ 200,000	\$ 180,000	\$ 20,000

Note 9 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Government obligation bonds	\$ 94,373,708	\$ 18,240,000	\$ 23,812,042	\$ 88,801,666	\$ 6,758,914
Accreted interest	7,401,000	-	354,000	7,047,000	495,000
School Bond Loan Fund	6,655,134	-	-	6,655,134	-
School Loan Revolving Fund	2,861,628	2,068,006	-	4,929,634	-
Accrued interest	456,008	497,357	-	953,365	-
Capital lease	-	252,364	45,672	206,692	47,955
Compensated absences	96,974	-	32,531	64,443	-
Employee severance pay	2,702,999	160,001	-	2,863,000	-
Retirement incentives	1,592,146	-	664,701	927,445	463,722
Premium on bonds	1,016,400	-	46,200	970,200	46,200
Discount on bonds	-	(406,034)	-	(406,034)	(23,336)
Deferred amount on refunding	-	(817,740)	-	(817,740)	(46,997)
Deferred issuance costs	-	(216,220)	-	(216,220)	(12,427)
Total	<u>\$ 117,155,997</u>	<u>\$ 19,777,734</u>	<u>\$ 24,955,146</u>	<u>\$ 111,978,585</u>	<u>\$ 7,729,031</u>

Avondale School District
Notes to Financial Statements
June 30, 2007

General obligation bonds payable at year end, consists of the following:

1988 Building and Site Capital Appreciation Bonds- \$3,389,599 issued due in annual installments of \$282,084 to \$353,914 plus accumulated interest through May 1, 2014, interest at 7.65% to 7.75%	\$ 2,216,666
1999 Refunding Bonds- \$22,390,000 issued, due in annual installments of \$1,400,000 to \$1,415,000 through May 1, 2022, interest at 4.15% to 4.95%	21,055,000
2001 Refunding Bonds- \$10,850,000 issued, due in annual installments of \$695,000 to \$890,000 through May 1, 2014, interest at 4.05% to 4.60%	5,560,000
2002 Refunding Bonds- \$18,635,000 issued, due in annual installments of \$1,395,000 to \$2,065,000 through May 1, 2011, interest at 4.00% to 5.00%	7,355,000
2003 School Building and Site Bonds- \$57,645,000 issued, due in annual installments of \$1,950,000 to \$2,200,000 through May 1, 2015, interest at 3.00% to 5.00%	16,845,000
2005 Refunding Bonds- \$7,960,000 issued, due in annual installments of \$30,000 to \$2,435,000 through May 1, 2022, interest at 3.50% to 4.00%	7,795,000
2006 Refunding Bonds- \$9,835,000 issued, due in annual installments of \$105,000 to \$2,330,000 through May 1, 2019, interest at 3.50% to 4.00%	9,735,000
2007 Refunding Bonds- \$18,240,000 issued, due in annual installments of \$60,000 to \$2,500,000 through May 1, 2029, interest at 4.00% to 4.25%	<u>18,240,000</u>
Total general obligation bonded debt	<u>\$ 88,801,666</u>

Future principal and interest requirements for bonded debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 6,758,914	\$ 4,953,496	\$ 11,712,410
2009	6,708,037	4,706,171	11,414,208
2010	6,580,404	4,500,718	11,081,122
2011	6,279,984	4,287,329	10,567,313
2012	4,849,665	4,113,086	8,962,751
2013-2017	21,029,662	13,535,118	34,564,780
2018-2022	19,415,000	6,088,038	25,503,038
2023-2027	12,350,000	2,575,950	14,925,950
2028-2029	<u>4,830,000</u>	<u>307,487</u>	<u>5,137,487</u>
Total	<u>\$ 88,801,666</u>	<u>\$ 45,067,393</u>	<u>\$ 133,869,059</u>

The general obligation bonds are payable from the Debt Service Funds. As of year end, the funds had a balance of \$ 1,264,606 to pay this debt. Future debt and interest will be payable from future tax levies.

State School Bond Loan and School Loan Revolving Fund

The State School Bond Loan and School Loan Revolving Funds consists of borrowing agreements with the State of Michigan for the purpose of meeting the financing of current debt maturities on the School District's bond issues. Since 1988, the School District has issued bonds to renovate School District facilities. The bond election, as passed by the voters, specified that the School District debt millage would not exceed the pre-bond vote millage of 7 mills. Since the monies generated by the 7 mills are presently not sufficient to cover the entire debt service requirements of the School District, it has been necessary for the School District to borrow a total of \$11,584,768 to meet debt service requirements. Management of the School District anticipates that as the other bonds mature, the revenues provided by the debt millage will be sufficient to satisfy the future debt service requirements and all necessary borrowing from the State School Bond Loan Fund and the School Loan Revolving Fund. During the year, the School District borrowed \$ 2,068,006 and had an outstanding balance at year of \$11,584,768, from the State

Avondale School District
Notes to Financial Statements
June 30, 2007

School Bond Loan Fund and School Loan Revolving Fund. The School District has agreed to repay the loan amount with interest at rates and at times to be determined by the State Treasurer.

Compensated Absences

Accrued compensated absences at year end, consists of \$64,443 of vacation hours earned and vested. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by vacation time earned for the year.

Employee Severance Pay

The School District's employee severance pay liability recorded on the government-wide financial statements at June 30, 2007 is \$2,863,000.

Retirement Incentives

The School District's voluntary severance incentive plan to employees is to be paid over a four year period through 2009. The balance as of year end was \$927,445.

Future payments are as follows:

Year Ending June 30,	
2008	\$ 463,722
2009	<u>463,723</u>
Total	<u>\$ 927,445</u>

Interest and other expenditures for the fiscal year in the Debt Service Funds totaled \$4,735,997.

Advance Refunding

During the year, the School District issued general obligation bonds of \$18,240,000 (par value) with an interest rate of 4.00% to 4.25% to advance refund term bonds with an interest rate of 4.75% to 5.00% and a par value of \$16,800,000. The term bonds mature beginning in

2023 to 2029, respectively. The general obligation bonds were issued at a discount and after paying issuance costs of \$216,226, the net proceeds were \$17,617,740. The net proceeds from the issuance of the general obligation bonds were deposited with an escrow agent to provide debt service payments until the term bonds mature. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the School District's financial statements.

As a result of the advance refunding, the School District reduced its total debt service requirements by \$203,796, which resulted in an economic gain of \$538,309.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$817,740. This amount is reported in the accompanying statement of net assets as a reduction of bonds payable. Issuance costs and underwriting fees of \$216,226, is reported in the accompanying statement of net assets as other assets. Both amounts are being charged to activities through fiscal year 2029.

Defeased Debt

In prior years, the School District has defeased various bonds issued by creating separate irrevocable trust funds. New debt has been issued and the net proceeds of each refunding were placed in separate special escrow accounts and invested in securities of the U.S. Government and its agencies. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded bonds are considered to be defeased. Accordingly, the trust account assets and liability for the defeased bonds are not included in the School District's financial statements.

The final payment date is May 1, 2013. As of year end, the amount of defeased debt outstanding but removed from the School District's

Avondale School District

Notes to Financial Statements

June 30, 2007

financial statements is as follows:

2003 Issue refunded	\$ <u>33,000,000</u>
---------------------	----------------------

Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty and medical benefits provided to employees (excluding dental). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The School District is self-insured for dental insurance. The School District has contracted with an independent administrator to process the dental claims and perform other administrative duties. According to the provisions of this program, the School District pays 89.6% of dental claims, up to \$2,500 annually, to each covered employee and the remaining 10.4% is paid by the employee. The School District evaluates the liability related to the dental claims at the end of each fiscal year. The liability is calculated, based upon claims already incurred and reported and an estimate of incurred but not reported claims, as provided by the administrator.

No accrual has been recorded as of the end of the past three fiscal years, due to the insignificance of the estimated liability for dental claims. The year end claims liability and activity for the year is as follows:

Estimated liability at the beginning of the year	\$ -
Estimated claims incurred including changes in estimates	261,743
Claim payments	<u>(261,743)</u>
Estimated liability end of year	<u>\$ -</u>

The School District is self-insured under the Michigan Worker's

Disability Compensation Act. Workers' compensation excess insurance has been retained for the aggregate claims exceeding \$500,000 for each annual policy period, to a maximum of \$1,000,000. This excess insurance also applies to individual occurrences exceeding \$500,000, with a statutory maximum for those individual occurrences. The expenditures for the year were \$31,516. There was no liability at year end.

Note 10 - Defined Benefit Pension Plan

Plan Description

The School District has a defined benefit pension plan covering substantially all employees. The plan is operated by the State of Michigan's Public School Employees Retirement System (MPERS), which is a cost-sharing public employee retirement system (PERS).

The pension plan provides retirement, survivor and disability benefits to plan members and their beneficiaries.

MPERS operates within the Michigan Department of Management and Budget, Office of Retirement Systems who has the authority to establish and amend benefit provisions. The Michigan Department of Management and Budget issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671 or calling 800-381-5111.

Funding Policy

The School is required by State statute to contribute to MPERS an actuarially determined percentage of payroll for all participating employees. Additionally, employees participating in the Member Investment Plan contributed 3% to 4.3% of their covered wages through payroll deduction. In addition to retirement benefits, a portion of the total MPERS contribution is allocated to cover health, dental and vision benefits. The following table discloses pertinent

Avondale School District

Notes to Financial Statements

June 30, 2007

information relative to MPSERS funding for the three-year period beginning July 1, 2004 through June 30, 2007.

	2007	2006	2005
Funding percentage range	16.34-17.74%	14.87-16.34%	12.99-14.87%
School contributions	\$3,946,503	\$3,906,159	\$3,421,746
Portion of school contribution covering health, dental and vision benefits	37%	40%	44%

Trend Information

Ten-year historical trend information is presented in the September 30, 2006, PERS Comprehensive Annual Financial Report. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. The total benefit obligations and net assets available for benefits as of September 30, 2005, the latest date for which information is available, approximates \$ 48.2 billion and \$ 38.2 billion, respectively. The School's share of the total current actuarially determined employer contribution requirement under MPSERS was less than 1% for the year ended September 30, 2006.

Post Employment Benefits

In addition to the pension benefits described above, the School District provides post-retirement health care, dental, and vision benefits for retirees and beneficiaries through Michigan Public School Employees Retirement System (MPSERS).

Expenditures for these benefits are recognized on a cash disbursement basis. During the year ended September 30, 2006, statewide expenditures of \$ 694 million were recognized for post-retirement health care, dental and vision. This represented approximately 20% of the total expenditures of the Michigan Public School Employees Retirement System.

Note 11 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year June 30, 2007.

The School District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the School District's attorneys, the resolution of these matters will not have a material adverse effect on the financial condition of the School District.

Note 12 - Bank Line of Credit

In August 2006, the School District entered into a line of credit agreement with bank for a maximum loan amount of \$2,000,000. Interest is charged monthly on the outstanding principal balance at .65 percent over the monthly LIBOR (5.36 percent at June 30, 2007). The School District did not borrow against the line of credit during the fiscal year.

Note 13 - Subsequent Event

On June 18, 2007, the Board of Education passed a resolution authorizing the School District to borrow \$5,000,000 in state aid anticipation notes through the Michigan Municipal Bond Authority. The School District received the proceeds of this borrowing August 20, 2007. The interest rate was 3.68%.

REQUIRED SUPPLEMENTAL INFORMATION

Avondale School District
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Local sources	\$ 11,951,160	\$ 12,432,330	\$ 12,579,975	\$ 147,645
State sources	21,856,519	22,194,996	22,370,204	175,208
Federal sources	775,000	968,078	930,229	(37,849)
Interdistrict sources	2,158,400	1,877,415	1,647,778	(229,637)
 Total revenues	 <u>36,741,079</u>	 <u>37,472,819</u>	 <u>37,528,186</u>	 <u>55,367</u>
 Expenditures				
Instruction				
Basic programs	21,021,596	20,241,119	19,905,969	(335,150)
Added needs	4,053,616	4,862,462	4,700,114	(162,348)
Supporting services				
Pupil	2,650,751	2,789,911	2,703,585	(86,326)
Instructional staff	859,278	1,032,488	942,342	(90,146)
General administration	668,487	729,599	731,372	1,773
School administration	2,506,546	2,571,119	2,540,560	(30,559)
Business	548,915	665,814	698,028	32,214
Operations and maintenance	3,231,618	3,891,577	3,873,093	(18,484)
Pupil transportation services	1,047,871	1,260,364	1,094,071	(166,293)
Central	1,767,560	962,405	856,729	(105,676)
Community services	-	949	949	-
Intergovernmental payments	134,611	159,844	156,776	(3,068)
Capital outlay	-	-	367,872	367,872
 Total expenditures	 <u>38,490,849</u>	 <u>39,167,651</u>	 <u>38,571,460</u>	 <u>(596,191)</u>
 Excess (deficiency) of revenues over expenditures	 <u>(1,749,770)</u>	 <u>(1,694,832)</u>	 <u>(1,043,274)</u>	 <u>651,558</u>

Avondale School District
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Other financing sources (uses)				
Capital lease	\$ -	\$ -	\$ 252,364	\$ 252,364
Transfers out	<u>(500,000)</u>	<u>(494,500)</u>	<u>(494,500)</u>	<u>-</u>
Total other financing sources (uses)	<u>(500,000)</u>	<u>(494,500)</u>	<u>(242,136)</u>	<u>252,364</u>
Net change in fund balance	(2,249,770)	(2,189,332)	(1,285,410)	903,922
Fund balance - beginning	<u>630,338</u>	<u>630,338</u>	<u>630,338</u>	<u>-</u>
Fund balance (deficit) - ending	<u><u>\$ (1,619,432)</u></u>	<u><u>\$ (1,558,994)</u></u>	<u><u>\$ (655,072)</u></u>	<u><u>\$ 903,922</u></u>

OTHER SUPPLEMENTAL INFORMATION

Avondale School District
Other Supplemental Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2007

	Special Revenue Funds			Debt Service Funds								Capital Projects Fund	Total Nonmajor Governmental Funds
	Food Service	Athletics	Community Services	1988 Debt Service Fund	1996 Debt Service Fund	1999 Debt Service Fund	2001 Debt Service Fund	2002 Debt Service Fund	2003 Debt Service Fund	2005 Debt Service Fund	2006 Debt Service Fund	Sinking Fund	
Assets													
Cash	\$ 28,989	\$ 7,340	\$ 9,066	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 590,375	\$ 635,770
Accounts receivable	5,000	-	-	-	-	-	-	-	2,445	-	-	-	7,445
Due from other funds	53,627	2,740	2,218	58,978	53,473	44,809	44,778	98,135	124,992	12,608	27,317	33,171	556,846
Inventory	7,449	-	-	-	-	-	-	-	-	-	-	-	7,449
Investments	3,757	17,887	95,779	44,903	45,000	35,884	37,228	79,685	536,703	9,512	15,273	277,518	1,199,129
Prepaid items	-	-	1,217	-	-	-	-	-	-	-	-	-	1,217
Total assets	\$ 98,822	\$ 27,967	\$ 108,280	\$ 103,881	\$ 98,473	\$ 80,693	\$ 82,006	\$ 177,820	\$ 664,140	\$ 22,120	\$ 42,590	\$ 901,064	\$ 2,407,856
Liabilities and fund balance													
Liabilities													
Accounts payable	\$ 32,763	\$ 52	\$ 1,011	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 180,037	\$ 213,863
Due to other funds	-	6,780	15,686	-	-	-	-	-	-	-	-	-	22,466
Due to other governmental units	-	-	-	2,400	637	512	530	1,130	1,556	136	216	443	7,560
Accrued salaries payable	-	-	12,898	-	-	-	-	-	-	-	-	-	12,898
Deferred revenue	-	-	23,674	-	-	-	-	-	-	-	-	-	23,674
Total liabilities	32,763	6,832	53,269	2,400	637	512	530	1,130	1,556	136	216	180,480	280,461
Fund balance													
Reserved for debt service	-	-	-	101,481	97,836	80,181	81,476	176,690	662,584	21,984	42,374	-	1,264,606
Reserved for capital projects	-	-	-	-	-	-	-	-	-	-	-	720,584	720,584
Other undesignated	66,059	21,135	55,011	-	-	-	-	-	-	-	-	-	142,205
Total fund balance	66,059	21,135	55,011	101,481	97,836	80,181	81,476	176,690	662,584	21,984	42,374	720,584	2,127,395
Total liabilities and fund balance	\$ 98,822	\$ 27,967	\$ 108,280	\$ 103,881	\$ 98,473	\$ 80,693	\$ 82,006	\$ 177,820	\$ 664,140	\$ 22,120	\$ 42,590	\$ 901,064	\$ 2,407,856

Avondale School District
Other Supplemental Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2007

	Special Revenue Funds			Debt Service Funds									Capital Projects Fund	Total Nonmajor Governmental Funds
	Food Service	Athletics	Community Services	1988 Debt Service Fund	1996 Debt Service Fund	1999 Debt Service Fund	2001 Debt Service Fund	2002 Debt Service Fund	2003 Debt Service Fund	2005 Debt Service Fund	2006 Debt Service Fund	2007 Debt Service Fund	Sinking Fund	
Revenues														
Local sources	\$ 563,769	\$ 79,436	\$ 1,216,106	\$ 1,203,078	\$ 1,205,286	\$ 953,984	\$ 998,214	\$ 2,132,630	\$ 2,937,310	\$ 257,250	\$ 404,097	\$ -	\$ 853,774	\$ 12,804,934
State sources	28,498	-	-	-	-	-	-	-	-	-	-	-	-	28,498
Federal sources	235,865	-	-	-	-	-	-	-	-	-	-	-	-	235,865
Total revenues	828,132	79,436	1,216,106	1,203,078	1,205,286	953,984	998,214	2,132,630	2,937,310	257,250	404,097	-	853,774	13,069,297
Expenditures														
Current														
Education														
Food services	821,786	-	-	-	-	-	-	-	-	-	-	-	-	821,786
Athletic activities	-	572,648	-	-	-	-	-	-	-	-	-	-	-	572,648
Community services	-	-	1,210,307	-	-	-	-	-	-	-	-	-	-	1,210,307
Capital outlay	1,051	-	-	-	-	-	-	-	-	-	-	-	466,709	467,760
Debt service														
Principal	-	-	-	367,042	1,365,000	175,000	925,000	2,130,000	1,950,000	-	100,000	-	-	7,012,042
Interest and other expenditures	-	-	-	1,077,950	82,566	987,417	278,947	436,524	1,169,902	310,540	392,151	-	-	4,735,997
Bond issuance costs	-	-	-	-	-	-	-	-	-	-	-	216,226	-	216,226
Total expenditures	822,837	572,648	1,210,307	1,444,992	1,447,566	1,162,417	1,203,947	2,566,524	3,119,902	310,540	492,151	216,226	466,709	15,036,766
Excess (deficiency) of revenues over expenditures	5,295	(493,212)	5,799	(241,914)	(242,280)	(208,433)	(205,733)	(433,894)	(182,592)	(53,290)	(88,054)	(216,226)	387,065	(1,967,469)
Other financing sources (uses)														
Proceeds from refinancing debt	-	-	-	-	-	-	-	-	-	-	-	18,240,000	-	18,240,000
Payment to bond refunding escrow agent	-	-	-	-	-	-	-	-	-	-	-	(17,617,740)	-	(17,617,740)
Discount on issuance of bonds	-	-	-	-	-	-	-	-	-	-	-	(406,034)	-	(406,034)
Proceeds from school bond loan fund	-	-	-	270,037	221,186	227,707	220,513	421,186	523,314	60,717	123,346	-	-	2,068,006
Transfers in	-	494,500	-	-	-	-	-	-	-	-	-	-	-	494,500
Total other financing sources (uses)	-	494,500	-	270,037	221,186	227,707	220,513	421,186	523,314	60,717	123,346	216,226	-	2,778,732
Net change in fund balance	5,295	1,288	5,799	28,123	(21,094)	19,274	14,780	(12,708)	340,722	7,427	35,292	-	387,065	811,263
Fund balance - beginning	60,764	19,847	49,212	73,358	118,930	60,907	66,696	189,398	321,862	14,557	7,082	-	333,519	1,316,132
Fund balance - ending	\$ 66,059	\$ 21,135	\$ 55,011	\$ 101,481	\$ 97,836	\$ 80,181	\$ 81,476	\$ 176,690	\$ 662,584	\$ 21,984	\$ 42,374	\$ -	\$ 720,584	\$ 2,127,395

Avondale School District
Other Supplemental Information
General Fund
Comparative Balance Sheet
June 30, 2007

	<u>2007</u>	<u>2006</u>
Assets		
Cash	\$ 62,916	\$ 80,002
Taxes receivable	51,709	525,544
Accounts receivable	161,141	1,911,977
Due from other funds	41,034	42,810
Due from other governmental units	4,037,476	4,218,885
Inventory	-	76,393
Investments	1,888,098	838,213
Prepaid items	<u>50,646</u>	<u>41,132</u>
Total assets	<u>\$ 6,293,020</u>	<u>\$ 7,734,956</u>
Liabilities and fund balance		
Liabilities		
Accounts payable	\$ 1,097,725	\$ 939,593
State aid anticipation note payable	20,000	-
Bank line of credit	-	900,000
Due to other funds	559,094	226,941
Payroll deductions and withholdings	10,486	532,933
Accrued salaries payable	3,906,650	3,144,805
Deferred revenue	<u>1,354,137</u>	<u>1,360,346</u>
Total liabilities	<u>6,948,092</u>	<u>7,104,618</u>
Fund balance		
Reserved for inventory	-	76,393
Reserved for prepaid items	-	41,132
Other undesignated (deficit)	<u>(655,072)</u>	<u>512,813</u>
Total fund balance (deficit)	<u>(655,072)</u>	<u>630,338</u>
Total liabilities and fund balance	<u>\$ 6,293,020</u>	<u>\$ 7,734,956</u>

Avondale School District
Other Supplemental Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2007

Year Ending June 30	Interest Rate (Percent)	Interest Due		Principal Due May 1	Total Debt Service Cost
		November 1	May 1		
1988 Building and Site Capital Appreciation Bonds					
2008	7.65	\$ -	\$ 1,156,086	\$ 353,914	\$ 1,510,000
2009	7.70	-	1,231,963	338,037	1,570,000
2010	7.70	-	1,324,596	330,404	1,655,000
2011	7.75	-	1,405,016	314,984	1,720,000
2012	7.75	-	1,490,335	304,665	1,795,000
2013	7.75	-	1,567,422	292,578	1,860,000
2014	7.75	-	1,652,916	282,084	1,935,000
		<u>\$ -</u>	<u>\$ 9,828,334</u>	<u>\$ 2,216,666</u>	<u>\$ 12,045,000</u>
1999 Refunding Bonds					
2008	4.15	\$ 488,157	\$ 488,157	\$ 1,400,000	\$ 2,376,314
2009	4.25	459,106	459,106	1,400,000	2,318,212
2010	4.30	429,356	429,356	1,400,000	2,258,712
2011	4.40	399,256	399,256	1,400,000	2,198,512
2012	4.50	368,456	368,456	1,400,000	2,136,912
2013	4.60	336,956	336,956	1,400,000	2,073,912
2014	4.70	304,756	304,756	1,400,000	2,009,512
2015	4.85	271,857	271,857	1,400,000	1,943,714
2016	4.90	237,906	237,906	1,400,000	1,875,812
2017	4.95	203,606	203,606	1,400,000	1,807,212
2018	4.95	168,956	168,956	1,400,000	1,737,912
2019	4.75	134,306	134,306	1,410,000	1,678,612
2020	4.75	100,819	100,819	1,415,000	1,616,638
2021	4.75	67,212	67,213	1,415,000	1,549,425
2022	4.75	33,607	33,607	1,415,000	1,482,214
		<u>\$ 4,004,312</u>	<u>\$ 4,004,313</u>	<u>\$ 21,055,000</u>	<u>\$ 29,063,625</u>

Avondale School District
Other Supplemental Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2007

Year Ending June 30	Interest Rate (Percent)	Interest Due		Principal Due May 1	Total Debt Service Cost
		November 1	May 1		
2001 Refunding Bonds					
2008	4.05	\$ 119,104	\$ 119,104	\$ 890,000	\$ 1,128,208
2009	4.10	101,081	101,081	860,000	1,062,162
2010	4.20	83,451	83,451	830,000	996,902
2011	4.25	66,021	66,021	795,000	927,042
2012	4.40	49,128	49,128	765,000	863,256
2013	4.50	32,297	32,297	725,000	789,594
2014	4.60	15,985	15,985	695,000	726,970
		<u>\$ 467,067</u>	<u>\$ 467,067</u>	<u>\$ 5,560,000</u>	<u>\$ 6,494,134</u>
2002 Refunding Bonds					
2008	4.00	\$ 173,550	\$ 173,550	\$ 2,065,000	\$ 2,412,100
2009	5.00	132,250	132,250	1,995,000	2,259,500
2010	5.00	82,375	82,375	1,900,000	2,064,750
2011	5.00	34,875	34,875	1,395,000	1,464,750
		<u>\$ 423,050</u>	<u>\$ 423,050</u>	<u>\$ 7,355,000</u>	<u>\$ 8,201,100</u>
2003 School Building and Site Bonds					
2008	3.00	\$ 346,650	\$ 346,650	\$ 1,950,000	\$ 2,643,300
2009	5.00	317,400	317,400	1,950,000	2,584,800
2010	5.00	268,650	268,650	1,950,000	2,487,300
2011	4.00	219,900	219,900	2,195,000	2,634,800
2012	4.00	176,000	176,000	2,200,000	2,552,000
2013	4.00	132,000	132,000	2,200,000	2,464,000
2014	4.00	88,000	88,000	2,200,000	2,376,000
2015	4.00	44,000	44,000	2,200,000	2,288,000
		<u>\$ 1,592,600</u>	<u>\$ 1,592,600</u>	<u>\$ 16,845,000</u>	<u>\$ 20,030,200</u>

Avondale School District
Other Supplemental Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2007

Year Ending June 30	Interest Rate (Percent)	Interest Due		Principal Due May 1	Total Debt Service Cost
		November 1	May 1		
2005 Refunding Bonds					
2008	3.50	\$ 155,003	\$ 155,003	\$ 100,000	\$ 410,006
2009	3.50	153,253	153,253	-	306,506
2010	3.50	153,253	153,253	110,000	416,506
2011	3.50	151,328	151,328	-	302,656
2012	3.63	151,328	151,328	115,000	417,656
2013	3.75	149,244	149,244	-	298,488
2014	4.00	149,244	149,244	125,000	423,488
2015	4.00	146,900	146,900	-	293,800
2016	4.00	146,900	146,900	30,000	323,800
2017	4.00	146,300	146,300	30,000	322,600
2018	4.00	145,700	145,700	30,000	321,400
2019	4.00	145,100	145,100	35,000	325,200
2020	4.00	144,400	144,400	2,435,000	2,723,800
2021	4.00	95,700	95,700	2,405,000	2,596,400
2022	4.00	47,600	47,600	2,380,000	2,475,200
		<u>\$ 2,081,253</u>	<u>\$ 2,081,253</u>	<u>\$ 7,795,000</u>	<u>\$ 11,957,506</u>
2006 Refunding Bonds					
2008	3.50	\$ 193,970	\$ 193,970	\$ -	\$ 387,940
2009	3.50	193,970	193,970	105,000	492,940
2010	3.50	192,133	192,132	-	384,265
2011	3.50	192,133	192,132	115,000	499,265
2012	3.50	190,120	190,120	-	380,240
2013	3.70	190,120	190,120	120,000	500,240
2014	3.70	187,900	187,900	-	375,800
2015	4.00	187,900	187,900	130,000	505,800
2016	4.00	185,300	185,300	2,300,000	2,670,600
2017	4.00	139,300	139,300	2,330,000	2,608,600
2018	4.00	92,700	92,700	2,305,000	2,490,400
2019	4.00	46,600	46,600	2,330,000	2,423,200
		<u>\$ 1,992,146</u>	<u>\$ 1,992,144</u>	<u>\$ 9,735,000</u>	<u>\$ 13,719,290</u>

Avondale School District
Other Supplemental Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2007

Year Ending June 30	Interest Rate (Percent)	Interest Due		Principal Due May 1	Total Debt Service Cost
		November 1	May 1		
2007 Refunding Bonds					
2008	4.00	\$ 380,044	\$ 464,498	\$ -	\$ 844,542
2009	4.00	380,044	380,044	60,000	820,088
2010	4.00	378,843	378,844	60,000	817,687
2011	4.00	377,644	377,644	65,000	820,288
2012	4.00	376,343	376,344	65,000	817,687
2013	4.00	375,044	375,044	70,000	820,088
2014	4.00	373,643	373,644	70,000	817,287
2015	4.00	372,244	372,244	75,000	819,488
2016	4.00	370,743	370,744	75,000	816,487
2017	4.00	369,244	369,244	80,000	818,488
2018	4.00	367,643	367,644	80,000	815,287
2019	4.00	366,044	366,044	85,000	817,088
2020	4.00	364,343	364,344	90,000	818,687
2021	4.00	362,544	362,544	90,000	815,088
2022	4.00	360,743	360,744	95,000	816,487
2023	4.00	358,844	358,844	2,500,000	3,217,688
2024	4.00	308,843	308,844	2,485,000	3,102,687
2025	4.25	259,144	259,144	2,470,000	2,988,288
2026	4.25	206,656	206,656	2,455,000	2,868,312
2027	4.25	154,487	154,488	2,440,000	2,748,975
2028	4.25	102,637	102,638	2,425,000	2,630,275
2029	4.25	51,106	51,106	2,405,000	2,507,212
		\$ 7,016,870	\$ 7,101,334	\$ 18,240,000	\$ 32,358,204

Avondale School District
Continuing Disclosure Undertaking
Property Tax Data
(Unaudited)
Year Ended June 30, 2007

	<u>General Fund</u>	<u>Debt Service Funds</u>	<u>Capital Projects - Sinking Fund</u>	<u>Total</u>
2006-2007 adjusted levy	\$ 11,869,107	\$ 9,413,957	\$ 843,580	\$ 22,126,644
2006-2007 collections, write-offs, and adjustments	<u>11,817,398</u>	<u>9,421,074</u>	<u>844,023</u>	<u>22,082,495</u>
Balance receivable - June 30, 2007	<u>\$ 51,709</u>	<u>\$ (7,117)</u>	<u>\$ (443)</u>	<u>\$ 44,149</u>
			<u>2006-2007 Homestead</u>	<u>Nonhomestead</u>
Other Information				
Final taxable value of property assessed in the School District			<u>\$ 808,229,572</u>	<u>\$ 603,264,772</u>
Tax levy (mills):				
General Fund			1.2503	18.0000
Debt Service Funds			7.0000	7.0000
Capital Projects - Sinking Fund			<u>0.5936</u>	<u>0.5936</u>
Total tax levy (mills)			<u>8.8439</u>	<u>25.5936</u>
Official student enrollment (blended pupil count)				<u>3,880</u>

Avondale School District
Continuing Disclosure Undertaking
(Unaudited)
Year Ended June 30, 2007

Avondale School District
County of Oakland, State of Michigan

\$	2,216,666	1988 School Building and Site Capital Appreciation Bonds
	21,055,000	1999 Refunding Bonds
	5,560,000	2001 Refunding Bonds
	7,355,000	2002 Refunding Bonds
	16,845,000	2003 School Building and Site Bonds
	7,795,000	2005 Refunding Bonds
	9,735,000	2006 Refunding Bonds
	18,240,000	2007 Refunding Bonds

Enrollment

Ten-year Enrollment History

<u>School Year</u>	<u>Enrollment</u>	<u>School Year</u>	<u>Enrollment</u>
2006-2007	3,902	2001-2002	3,838
2005-2006	3,816	2000-2001	3,791
2004-2005	3,844	1999-2000	3,661
2003-2004	3,856	1998-1999	3,654
2002-2003	3,893	1997-1998	3,718

2006-2007 Fall Count

Kindergarten	279	8th	310
1st	287	9th	322
2nd	284	10th	300
3rd	268	11th	267
4th	270	12th	262
5th	302	Alternative education	150
6th	293		
7th	308		
		Total	<u><u>3,902</u></u>

Avondale School District
Continuing Disclosure Undertaking
(Unaudited)
Year Ended June 30, 2007

Labor Relations

<u>Class</u>	<u>Number</u>	<u>Affiliation</u>	<u>Contract Expires</u>
Teachers	232	Avondale Education Association, MEA/NEA	6/30/2008
Custodians and bus drivers	20	AFSCME	6/30/2008
Administrators	11	Avondale Administrators Association	6/30/2007 *
Secretaries	26	Avondale Assoc. of Educ. Secretaries, MEA/NEA	6/30/2008
Para-educators	57	Avondale Para-Educational Assoc., MEA/NEA	6/30/2008
Others	79	Not Affiliated	None
<hr/>			
Total	425		

During the past ten years, the School District has not experienced a strike by any of its bargaining units.

* The School District is currently in negotiation with Avondale Administrators Association.

Avondale School District
Continuing Disclosure Undertaking
(Unaudited)
Year Ended June 30, 2007

Retirement Plan

Contribution Period	Contribution Rate (Percent)
October 1, 2006 - September 30, 2007	17.74
October 1, 2005 - September 30, 2006	16.34
October 1, 2004 - September 30, 2005	14.87
October 1, 2003 - September 30, 2004	12.99
October 1, 2002 - September 30, 2003	12.99

Fiscal Year Ended June 30	Contributions to MPERS
2007	\$ 4,568,062
2006	4,199,131
2005	4,265,585
2004	4,066,173
2003	3,934,405

History of Valuations (1)

Year	Homestead Taxable Value	Nonhomestead Taxable Value	Total Taxable Value	Adjusted CFT/IFT Valuation (2)	Total Valuation Subject to Tax
2007	\$ 824,466,867	\$ 635,817,633	\$ 1,460,284,500	\$ 5,894,785	\$ 1,466,179,285
2006	767,345,754	575,218,861	1,342,564,615	969,410	1,343,534,025
2005	765,316,690	579,844,250	1,345,160,940	1,143,060	1,346,304,000
2004	710,838,813	560,746,770	1,271,585,583	3,886,930	1,275,472,513
2003	655,543,685	545,849,281	1,201,392,966	12,921,055	1,214,314,021
2002	623,477,587	518,514,382	1,141,991,969	12,710,335	1,154,702,304
2001	582,707,455	514,842,629	1,097,550,084	12,532,575	1,110,082,659
2000	539,427,557	491,589,951	1,031,017,508	12,692,510	1,043,710,018

(1) Sources: Oakland County Equalization Department and Assessor's offices of respective municipalities.

(2) Represents 50% of the IFT taxable value for new facilities and 100% of the IFT taxable value for rehabilitated facilities.

Avondale School District
Continuing Disclosure Undertaking
(Unaudited)
Year Ended June 30, 2007

Tax Levies and Collections

School Year	Operating Tax Levy	Current Collections to March		Received by School District to June 30	
		Amount	Percent	Amount	Percent
2006-2007	\$ 11,869,107	\$ 11,194,715	94.32	\$ 11,817,398	99.56
2005-2006	11,327,457	10,325,386	91.16	10,787,239	95.23
2004-2005	11,076,089	8,680,206	78.37	10,945,977	98.83
2003-2004	10,939,323	8,680,906	79.35	10,825,303	98.96
2002-2003	10,484,279	9,957,021	94.97	10,484,279	100.00

State Aid Payments

School Year	Blended Pupil Count	Foundation Allowance per Pupil	Total State Aid Payments
2006-2007	3,880	\$ 8,651	\$ 22,223,532
2005-2006	3,816	8,137	21,359,196
2004-2005	3,835	7,962	21,223,844
2003-2004	3,856	7,888	21,388,661
2002-2003	3,877	7,908	22,107,855

The 2003/04 State Aid Per Pupil was reduced by \$74 due to State revenue shortfalls.

School District Tax Rates (Per \$1,000 of Valuation)

Year	2007/08	2006/07	2005/06	2004/05	2003/04
Operating: (1)					
Voted Non-Homestead	18.0000	18.0000	18.0000	18.0000	18.0000
Voted Principal Residence	1.2602	1.2503	1.2503	1.4092	1.5965
Sinking Fund (2)	0.5936	0.5936	0.5936	0.6000	0.6000
Debt	7.0000	7.0000	7.0000	7.0000	7.0000
Total Principal Residence	8.8538	8.8439	8.8439	9.0092	9.1965
Total Non-Homestead	25.5936	25.5936	25.5936	25.6000	25.6000

(1) The School District levies 18 mills on non-homestead property, 1.2602 mills on principal residence property, and debt and sinking fund millage on all property. The operating non-homestead and principal residence mills expire with the December 2007 tax levy. The School District intends to seek voter approval to renew the operating millage authorizations at an election in November 2007.

(2) The sinking fund millage was reduced in the years 2005 and 2006 as a result of Article IX, Section 31 of the Michigan Constitution. The sinking fund millage will expire with the December 2007 levy. The School District intends to seek voter approval to renew the sinking fund millage authorization at an election in November 2007.

Avondale School District
Continuing Disclosure Undertaking
(Unaudited)
Year Ended June 30, 2007

Largest Taxpayers (1)

Shown below are the 10 largest identifiable taxpayers in the School District based on their 2007 total valuation. The taxpayers listed below represent 9.71% of the School District's 2007 Taxable Valuation of \$1,460,284,500.

Taxpayer	Service or Product	Total Valuation Subject to Taxation
Comerica Properties	Banking	\$ 35,114,510
Mak Real Estate Investment Company (2) (3)	Automobile manufacturing	20,550,350
First Industrial Realty Trust (3)	Management company	13,720,800
Charrington Estates (3)	Industrial buildings	13,687,230
Joel Nasanchuck	Industrial buildings	13,128,110
American Axle	Manufacturing	10,294,300
Steve Stolaruk	Developer	9,451,770
American House	Property management	9,226,070
Tall Oaks of Auburn Hills (3)	Apartments	8,358,000
Webasto Roof Systems, Inc.	Manufacturing	8,205,720
Total		<u>\$ 141,736,860</u>

(1) Sources: Respective municipalities.

(2) Owner of Volkswagen of America Inc. property. The operating manager of the Volkswagen building is Core Resources Inc.

(3) These taxpayers are appealing their personal property tax assessment.

Debt Statement

Date	Direct Debt	Amount
01/04/89	1988 School Building and Site Bonds (UTQ)	\$ 2,216,666
08/01/96	1999 Refunding Bonds (UTQ)	21,055,000
03/01/99	2001 Refunding Bonds (UTQ)	5,560,000
02/14/01	2002 Refunding Bonds (UTQ)	7,355,000
02/27/02	2003 School Building and Site Bonds (UTQ)	16,845,000
10/07/03	2005 Refunding Bonds (UTQ)	7,795,000
12/21/05	2006 Refunding Bonds (UTQ)	9,735,000
01/04/06	2007 Refunding Bonds (UTQ)	18,240,000
	Total direct debt	<u>\$ 88,801,666</u>

Avondale School District
Continuing Disclosure Undertaking
(Unaudited)
Year Ended June 30, 2007

Legal Debt Margin

2007 State Equalized Valuation		\$ 1,656,614,650
Debt Limit (15% of 2007 State Equalized Valuation)		\$ 248,492,198
Debt outstanding at June 30, 2007	\$ 88,801,666	
Less bonds not subject to debt limit	<u>(88,801,666)</u>	
Total subject to debt limit		<u>-</u>
Additional debt that can be legally incurred		<u>\$ 248,492,198</u>

School Bond Loan Fund and the School Loan Revolving Fund

As of June 30, 2007, the School District had an outstanding balance, including interest, of \$12,538,134.

Avondale School District

Auburn Hills, Michigan

Single Audit Report

June 30, 2007

C O N T E N T S

	<u>Page</u>
Single Audit Report	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	1
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	5
Notes to the Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	9
Summary Schedule of Prior Audit Findings	11

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Board of Education
Avondale School District
Auburn Hills, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Avondale School District as of and for the year ended June 30, 2007, which collectively comprise Avondale School District's basic financial statements and have issued our report thereon dated October 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Avondale School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Avondale School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Avondale School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Avondale School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted other matters involving the internal control over financial reporting, which we have reported to management of Avondale School District in a separate letter dated October 23, 2007.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan
October 23, 2007

**Report on Compliance with Requirements Applicable to Each
Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133**

To the Board of Education
Avondale School District
Auburn Hills, Michigan

Compliance

We have audited the compliance of Avondale School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Avondale School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Avondale School District's management. Our responsibility is to express an opinion on Avondale School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Avondale School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Avondale School District's compliance with those requirements.

In our opinion, Avondale School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 07-1.

Internal Control over Compliance

The management of Avondale School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Avondale School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Avondale School District's response to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Avondale School District's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Avondale School District as of and for the year ended June 30, 2007, and have issued our report thereon dated October 23, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Avondale School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan
October 23, 2007

Avondale School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Amount	Accrued (Deferred) Revenue July 1, 2006	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Adjustments	Accrued (Deferred) Revenue June 30, 2007
U.S. Department of Agriculture								
Passed through Michigan Department of Education								
Nutrition Cluster								
National School Lunch Breakfast								
061970 Breakfast	10.553	\$ 6,390	\$ 945	\$ 5,263	\$ 1,127	\$ 2,072	\$ -	\$ -
071970 Breakfast		9,449	-	-	9,449	9,056	-	393
			945		10,576	11,128	-	393
National School Lunch Program								
061950 Section 4 Lunches	10.555	44,030	6,534	38,986	5,044	11,578	-	-
071950 Section 4 Lunches		44,150	-	-	44,150	42,518	-	1,632
061960 Section 11 - Free and Reduced		128,135	19,741	112,908	15,227	34,968	-	-
071960 Section 11 - Free and Reduced		136,747	-	-	136,747	131,557	-	5,190
			26,275		201,168	220,621	-	6,822
Total Nutrition Cluster			27,220		211,744	231,749	-	7,215
Food Distributions								
Entitlement Commodities	10.550	24,046	-	-	24,046	24,046	-	-
Bonus Commodities		75	-	-	75	75	-	-
			-		24,121	24,121	-	-
Total U.S. Department of Agriculture			27,220		235,865	255,870	-	7,215
U.S. Department of Education								
Passed through Michigan Department of Education								
061530 0506 Title I	84.010	116,607	208	116,607	-	208	-	-
061530 0607 Title I		2,509	-	-	2,490	-	-	2,490
071530 0607 Title I		121,020	-	-	107,260	91,243	-	16,017
			208		109,750	91,451	-	18,507

See Accompanying Notes to Schedule of Expenditures of Federal Awards

Avondale School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Amount	Accrued (Deferred) Revenue July 1, 2006	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Adjustments	Accrued (Deferred) Revenue June 30, 2007
U.S. Department of Education								
Passed through Oakland County Intermediate School District								
Special Education Cluster								
050450 IDEA Flowthrough	84.027	\$ 498,657	\$ 45,437	\$ 498,547	\$ -	\$ 45,546	\$ 109	\$ -
060450 IDEA Flowthrough		544,574	102,349	505,335	35,207	106,381	4,032	35,207
070450 IDEA Flowthrough		551,028	-	-	513,299	216,641	-	296,658
			147,786		548,506	368,568	4,141	331,865
TOPS IEP Grant	84.027A	550	-	-	550	550	-	-
EIEP Grant	84.027A	28,900	-	-	24,202	21,704	-	2,498
060460 Preschool Incentive	84.173	24,922	7,600	23,494	367	7,600	-	367
070460 Preschool Incentive		19,447	-	-	17,880	8,762	-	9,118
			7,600		18,247	16,362	-	9,485
Total Special Education Cluster			155,386		591,505	407,184	4,141	343,848
Passed through Oakland County Intermediate School District								
Perkins Subgrant	84.048	25,365	9,815	25,365	-	9,815	-	-
Perkins Subgrant		24,393	-	-	24,369	2,121	-	22,248
			9,815		24,369	11,936	-	22,248
Passed through Michigan Department of Education								
Safe and Drug Free Schools								
052860 0506 Drug Free Schools	84.186	2,048	812	2,048	-	812	-	-
062860 0506 Drug Free Schools		11,943	(1,062)	11,943	-	(1,062)	-	-
062860 0607 Drug Free Schools		1,770	-	-	1,767	1,337	-	430
072860 0607 Drug Free Schools		10,950	-	-	8,701	2,897	-	5,804
			(250)		10,468	3,984	-	6,234
Title V Part A Innovative								
060250 0607 Title V	84.298	507	-	-	507	507	-	-
070250 0607 Title V		778	-	-	257	257	-	-
			-		764	764	-	-

See Accompanying Notes to Schedule of Expenditures of Federal Awards

Avondale School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Amount	Accrued (Deferred) Revenue July 1, 2006	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Adjustments	Accrued (Deferred) Revenue June 30, 2007
U.S. Department of Education								
Passed through Michigan Department of Education								
Technology Literacy Challenge Grants								
054290 0506 Title II Part D Ed Tech	84.318	\$ 267	\$ 104	\$ 267	\$ -	\$ 104	\$ -	\$ -
English Language Acquisition								
060580 0607 Title III Limited English	84.365	7,495	-	-	7,423	5,774	-	1,649
070580 0607 Title III Limited English		13,913	-	-	3,513	2,010	-	1,503
			-		10,936	7,784	-	3,152
Improving Teacher Quality								
060520 0506 Title II Part A Teach Trn	84.367	81,498	613	81,498	-	613	-	-
060520 0607 Title II Part A Teach Trn		11,268	-	-	10,729	10,729	-	-
070520 0607 Title II Part A Teach Trn		92,683	-	-	64,663	54,172	-	10,491
			613		75,392	65,514	-	10,491
Emerg Impact Aid - Hurricane Katrina Grant								
064120 1 Hurricane Katrina Relief	84.938	3,597	-	-	3,597	3,597	-	-
Passed through Oakland County Intermediate School District								
Career Focused Education	87.048	118,183	115,714	115,714	2,469	116,953	-	1,230
Career Focused Education		28,184	-	-	28,184	28,184	-	-
			115,714		30,653	145,137	-	1,230
Total U.S. Department of Education			281,590		857,434	737,455	4,141	405,710
U.S. Department of Health and Human Services								
Passed through Oakland Schools Intermediate School District								
Medicaid Transportation	93.778	818	-	-	818	210	-	608
Medicaid Outreach		71,977	-	-	71,977	23,295	-	48,682
			-		72,795	23,505	-	49,290
Total Federal Financial Awards			\$ 308,810		\$ 1,166,094	\$ 1,016,830	\$ 4,141	\$ 462,215

1 - This amount was expensed by the District in fiscal year 2006 and should have been recorded as a receivable at June 30, 2007. The amount was reimbursed in the current fiscal year.

See Accompanying Notes to Schedule of Expenditures of Federal Awards

Avondale School District
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2007

1. The Schedule of Expenditures of Federal Awards was prepared using the accrual basis of accounting.
2. Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual or final cost reports that have been submitted as of June 30, 2007.
3. The federal amounts reported on the forms Grant Auditor Report and the R-7120 "Grant Sections Auditors' Report" are in agreement with the Schedule of Expenditures of Federal Awards, except for the following awards:

	Receipts per R-7120 & <u>& GAR</u>	Receipts per <u>Schedule</u>	<u>Difference</u>	
061970 Breakfast	\$ 1,322	\$ 2,072	\$ 750	1
061950 Section 4 Lunches	6,163	11,578	5,415	1
061960 Section 11 - Free and Reduced	19,016	34,968	15,952	1
071530 0607 Title I	107,260	91,243	(16,017)	2
072860 0607 Drug Free Schools	8,368	2,897	(5,471)	2
060580 0607 Title III Limited English	7,423	5,774	(1,649)	2
070580 0607 Title III Limited English	3,513	2,010	(1,503)	2
070520 0607 Title II Part A Teach Trn	64,663	54,172	(10,491)	2

The differences above are due to the following reasons: (1) the District reflected the payment of the prior year receivable in the current year, whereas it was shown on the prior years R-7120 and (2) the R-7120 reflects the payment of the current year receivable, whereas the District does not show receipt of this payment until after fiscal year end.

4. The amounts reported on the Recipient Entitlement Balance Report agree with the Schedule of Expenditures of Federal Awards for U.S.D.A. donated food commodities.

Avondale School District
Schedule of Findings and Questioned Costs
June 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(s) identified that are not considered to be material weaknesses? _____ yes X none

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(s) identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X yes _____ no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
-----------------------	---

84.027 & 84.173	Special Education Cluster
-----------------	---------------------------

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X yes _____ no

Avondale School District
Schedule of Findings and Questioned Costs
June 30, 2007
(continued)

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards for the year ended June 30, 2007.

SECTION III - FEDERAL AWARD FINDINGS

Finding 07-1 – Special Education Cluster – Time and Effort Reporting

Specific requirement: Office of Management and Budget Circular A-87 requires when an employee is co-funded that written schedules be prepared at least monthly, be signed, and dated by the employee and account for the person's total activity.

Condition: Written schedules were not maintained for co-funded employees charged to the Special Education program.

Questioned Costs: \$20,000

Context: The School District provided budget information as their means of allocating salaries to federal awards.

Cause/Effect: The Special Education Director did not prepare written schedules to account for time charged to the Special Education program.

Recommendation: Have the Special Education Director establish written schedules to account for the activity of co-funded employees to substantiate the amount charged to federal programs.

Management Response:

For employees funded in whole or in part by a grant; the District will require a written schedule prepared by the grant administrator and an activity log prepared by the employee including signature and date on a bi-weekly basis to document activity.

Avondale School District
Summary Schedule of Prior Audit Findings
June 30, 2007

SECTION IV – PRIOR AUDIT FINDINGS

06-1 Reportable condition – The School District did not perform a separate review of the payroll bank reconciliations during the year.

RESOLVED

In the current year, the District implemented procedures for an employee separate from the preparation function to verify timeliness and accuracy of the payroll bank reconciliation.